

**Work Opportunity Credit**► **Attach to your tax return.**

Identifying number

**Part I Current Year Credit** (Members of a controlled group, see instructions.)

<b>1</b>	Enter the total qualified first-year wages paid or incurred during the tax year, and multiply by the percentage shown, for services of employees who began work for you before the applicable date in the instructions, are certified (if required) as members of a targeted group, and:																	
<b>a</b>	Worked for you at least 120 hours but fewer than 400 hours \$ ..... × 25% (.25)	<b>1a</b>																
<b>b</b>	Worked for you at least 400 hours . . . . . \$ ..... × 40% (.40)	<b>1b</b>																
<b>2</b>	Add lines 1a and 1b. You <b>must</b> subtract this amount from your deduction for salaries and wages	<b>2</b>																
<b>3</b>	<table><tr><td>Work opportunity credits from pass-through entities:</td><td>If you are a—</td><td>Then enter the total of the current year credits from—</td></tr><tr><td><b>a</b> Shareholder . . . . .</td><td></td><td>Schedule K-1 (Form 1120S), box 13, code F, G, or J</td></tr><tr><td><b>b</b> Partner . . . . .</td><td></td><td>Schedule K-1 (Form 1065), box 15, code F, G, or J.</td></tr><tr><td><b>c</b> Beneficiary . . . . .</td><td></td><td>Schedule K-1 (Form 1041), box 13, code F . . . . .</td></tr><tr><td><b>d</b> Patron . . . . .</td><td></td><td>Written statement from cooperative . . . . .</td></tr></table>	Work opportunity credits from pass-through entities:	If you are a—	Then enter the total of the current year credits from—	<b>a</b> Shareholder . . . . .		Schedule K-1 (Form 1120S), box 13, code F, G, or J	<b>b</b> Partner . . . . .		Schedule K-1 (Form 1065), box 15, code F, G, or J.	<b>c</b> Beneficiary . . . . .		Schedule K-1 (Form 1041), box 13, code F . . . . .	<b>d</b> Patron . . . . .		Written statement from cooperative . . . . .	<b>3</b>	
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<b>4</b>	<b>Current year credit.</b> Add lines 2 and 3. (S corporations, partnerships, estates, trusts, cooperatives, regulated investment companies, and real estate investment trusts, see instructions.) . . . . .	<b>4</b>																

**Part II Allowable Credit** (See **Who must file Form 3800** to find out if you complete Part II or file Form 3800.)

<b>5</b>	Regular tax before credits:		
	• Individuals. Enter the amount from Form 1040, line 44 . . . . .	}	<b>5</b>
	• Corporations. Enter the amount from Form 1120, Schedule J, line 3; Form 1120-A, Part I, line 1; or the applicable line of your return . . . . .		
	• Estates and trusts. Enter the sum of the amounts from Form 1041, Schedule G, lines 1a and 1b, or the amount from the applicable line of your return . . . . .		
<b>6</b>	Alternative minimum tax:		
	• Individuals. Enter the amount from Form 6251, line 35 . . . . .	}	<b>6</b>
	• Corporations. Enter the amount from Form 4626, line 14 . . . . .		
	• Estates and trusts. Enter the amount from Form 1041, Schedule I, line 56 . . . . .		
<b>7</b>	Add lines 5 and 6 . . . . .		<b>7</b>
<b>8a</b>	Foreign tax credit . . . . .	<b>8a</b>	
<b>b</b>	Credits from Form 1040, lines 48 through 54 . . . . .	<b>8b</b>	
<b>c</b>	Possessions tax credit (Form 5735, line 17 or 27) . . . . .	<b>8c</b>	
<b>d</b>	Nonconventional source fuel credit (Form 8907, line 23) . . . . .	<b>8d</b>	
<b>e</b>	Other specified credits (see instructions) . . . . .	<b>8e</b>	
<b>f</b>	Add lines 8a through 8e . . . . .	<b>8f</b>	
<b>9</b>	Net income tax. Subtract line 8f from line 7. If zero, skip lines 10 through 13 and enter -0- on line 14	<b>9</b>	
<b>10</b>	Net regular tax. Subtract line 8f from line 5. If zero or less, enter -0-	<b>10</b>	
<b>11</b>	Enter 25% (.25) of the excess, if any, of line 10 over \$25,000 (see instructions)	<b>11</b>	
<b>12</b>	Tentative minimum tax (see instructions) . . . . .	<b>12</b>	
<b>13</b>	Enter the greater of line 11 or line 12 . . . . .	<b>13</b>	
<b>14</b>	Subtract line 13 from line 9. If zero or less, enter -0- . . . . .	<b>14</b>	
<b>15</b>	<b>Credit allowed for the current year.</b> Enter the <b>smaller</b> of line 4 or line 14 here and on Form 1040, line 55; Form 1120, Schedule J, line 6d; Form 1120-A, Part I, line 2; Form 1041, Schedule G, line 2c; or the applicable line of your return. If line 14 is smaller than line 4, see instructions	<b>15</b>	

## General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

### What's New

The definition of "targeted group employee" has been expanded to include Hurricane Katrina employees. A Hurricane Katrina employee is:

- A person who, on August 28, 2005, had a main home in the core disaster area and, within a two-year period beginning on that date, is hired to perform services principally in the core disaster area; or
- A person who, on August 28, 2005, had a main home in the core disaster area, was displaced from the main home as a result of Hurricane Katrina, and is hired during the period beginning on August 28, 2005, and ending on December 31, 2005, for a job located outside the core disaster area.

Special rules that apply to members of this new targeted group are discussed below. For information about the core disaster area, see Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma.

### Purpose of Form

Use Form 5884 to claim the work opportunity credit for qualified first-year wages you paid to or incurred for targeted group employees during the tax year. Your business does not have to be located in an empowerment zone, enterprise community, or renewal community to qualify for this credit.

You can claim or elect not to claim the work opportunity credit any time within 3 years from the due date of your return on either your original return or an amended return.

### How To Claim the Credit

Generally, you must request and be issued a certification for each employee from the state employment security agency (SESA). The certification proves that the employee is a member of a targeted group. You must receive the certification by the day the individual begins work or complete Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Credits, on or before the day you offer the individual a job.

If you complete Form 8850, it must be signed by you and the individual and submitted to the SESA by the 21st calendar day after the individual begins work. If the SESA denies the request, it will provide a written explanation of the reason for denial. If a certification is revoked because it was based on false information provided by the worker, wages paid after the date you receive the notice of revocation do not qualify for the credit.

**Hurricane Katrina employee.** The certification requirements described above do not apply to Hurricane Katrina employees. Instead, the worker must show the employer reasonable evidence that the worker is a Hurricane Katrina employee (as defined above). An employer may use Form 8850 to accept reasonable evidence that the worker is a Hurricane Katrina employee. If the employer discovers that the worker is not a Hurricane Katrina employee, wages paid after the date of discovery will not qualify for the credit.

**Targeted group employee.** An employee is a member of a targeted group if he or she is a:

- Hurricane Katrina employee,
- Qualified recipient of Temporary Assistance for Needy Families (TANF),
- Qualified veteran,
- Qualified ex-felon,
- High-risk youth,
- Vocational rehabilitation referral,
- Qualified summer youth employee,
- Qualified food stamp recipient, or

- Qualified SSI recipient.

However, if you use any wages of an employee to figure the welfare-to-work credit for any tax year, the employee is not treated as a member of a targeted group for that year.

See Form 8850 and section 51(d) for details and restrictions.

### Qualified Wages

The credit is not allowed with respect to wages for services of employees who began work for you after December 31, 2005.

**Hurricane Katrina exception.** You can claim the credit after 2005 only for wages paid to Hurricane Katrina employees. To qualify, wages must be paid to a Hurricane Katrina employee who had a main home in the core disaster area on August 28, 2005, and, within a two-year period beginning on that date, was hired for a job whose principal place of employment is in the core disaster area.

**Qualified first-year wages.** Qualified first-year wages are wages you paid or incurred for work performed during the 1-year period beginning on the date the targeted group member begins work for you. The amount of qualified wages that may be taken into account for any employee is limited to \$6,000 (\$3,000 for a qualified summer youth employee). Wages qualifying for the credit generally have the same meaning as wages (excluding tips) subject to the Federal Unemployment Tax Act (FUTA). If the work performed by any employee during more than half of any pay period qualifies under FUTA as agricultural labor, the first \$6,000 of that employee's wages subject to social security and Medicare taxes qualify. For a special rule that applies to railroad employees, see section 51(h)(1)(B).

Qualified wages for any employee must be reduced by the amount of any work supplementation payments you received under the Social Security Act.

The amount of qualified wages for any employee is zero if:

- The employee did not work for you for at least 120 hours,
- The employee worked for you previously, unless the employee is a Hurricane Katrina employee who was not in your employment on August 28, 2005, and this is your first hire of the employee after that date,
- The employee is your dependent,
- The employee is related to you (see section 51(i)(1)),
- 50% or less of the wages the employee received from you were for working in your trade or business, or
- You use any of the employee's wages to figure the welfare-to-work credit for the current year.

Qualified wages do not include:

- Wages paid to any employee during any period for which you received payment for the employee from a federally funded on-the-job training program;
- Wages paid or incurred to a high-risk or qualified summer youth employee for services performed while the employee lived outside an empowerment zone, enterprise community, or renewal community;
- Wages paid or incurred for services performed by a qualified summer youth employee before or after any 90-day period between May 1 and September 15; and
- Wages for services of replacement workers during a strike or lockout.

## Specific Instructions

**Note.** If you only have a credit allocated to you from a pass-through entity, skip lines 1 and 2 and go to line 3.

### Part I—Current Year Credit

#### Lines 1a and 1b

**Note.** The "applicable date" is generally December 31, 2005 (see *Qualified Wages*, above). That is, the credit generally is not allowed with respect to wages for services of employees who began work for you after December 31, 2005. An

exception applies for Hurricane Katrina employees (see *Hurricane Katrina exception*, earlier).

Enter on the applicable line the total qualified first-year wages paid to employees who are members of a targeted group. Multiply the wages you enter on each line by the percentage shown on that line.

**Successor employer.** For successor employers, the 1-year period begins on the date the employee first began work for the previous employer and any qualified first-year wages paid by the successor employer are reduced by the qualified first-year wages paid by the previous employer. See section 51(k)(1) and Regulations section 1.51-1(h).

A successor employer is an employer that acquires substantially all of the property used in a trade or business (or a separate unit thereof) of another employer (the previous employer) and immediately after the acquisition, the successor employs in his/her trade or business an individual who was employed immediately prior to the acquisition in the trade or business of the previous employer.

**Special instructions for controlled group members.** The group member proportionately contributing the most qualified first-year wages figures the group credit in Part I and skips Part II. See sections 52(a) and 1563. On separate Forms 5884, that member and every other member of the group should skip lines 1a and 1b and enter its share of the group credit on line 2. Each member then completes lines 3, 4, and 5 through 15 (or Form 3800, if required) on its separate form. Each member must attach to its Form 5884 a schedule showing how the group credit was divided among all the members. The members share the credit in the same proportion that they contributed qualifying wages.

## Line 2

In general, you must reduce your deduction for salaries and wages by the amount on line 2. This is required even if you cannot take the full credit this year and must carry part of it back or forward. However, the following exceptions apply.

- If you capitalized any salaries and wages on which you figured the credit, reduce your depreciable basis by the amount of the credit on those salaries and wages.
- You used the full absorption method of inventory costing, which required you to reduce your basis in inventory for the credit.

If either of the above exceptions applies, attach a statement explaining why the amount on line 2 differs from the amount by which you reduced your deduction.

## Line 3

Enter the amount of credit that was allocated to you as a shareholder, partner, beneficiary, or patron of a cooperative.

## Line 4

**S corporations and partnerships.** Allocate the credit among the shareholders or partners. Attach Form 5884 to the return and on Schedule K-1 show the credit for each shareholder or partner. Electing large partnerships include this credit in "general credits."

**Estates and trusts.** Allocate the credit on line 4 between the estate or trust and the beneficiaries in proportion to the income allocable to each. On the dotted line next to line 4, the estate or trust should enter its part of the total credit. Label it "1041 Portion" and use this amount in Part II (or Form 3800, if required) to figure the credit to claim on Form 1041.

**Cooperatives.** Most tax-exempt organizations cannot take the credit. However, a cooperative described in section 1381(a) takes the credit to the extent it has tax liability. Any excess is shared among its patrons.

**Regulated investment companies and real estate investment trusts.** Reduce the allowable credit to the company's or trust's ratable share of the credit. For details, see Regulations section 1.52-3(b).

## Part II—Allowable Credit

The credit allowed for the current year may be limited based on your tax liability. Use Part II to figure the allowable credit unless you must file Form 3800, General Business Credit.

**Who must file Form 3800.** You must file Form 3800 if you have:

- A work opportunity credit from a passive activity;
- More than one credit included in the general business credit (other than a credit from Form 8844, Form 6478, or Section B of Form 8835); or
- A carryback or carryforward of any of those credits.

See the instructions for Form 3800 to find out which credits are included in the general business credit.

## Line 8e

Include on line 8e any amounts claimed on:

- Form 8834, Qualified Electric Vehicle Credit, line 20,
- Form 8910, Alternative Motor Vehicle Credit, line 18, and
- Form 8911, Alternative Fuel Vehicle Refueling Property Credit, line 19.

## Line 11

See section 38(c)(5) for special rules that apply to married couples filing separate returns, controlled corporate groups, regulated investment companies, real estate investment trusts, and estates and trusts.

## Line 12

Although you may not owe alternative minimum tax (AMT), you generally must still compute the tentative minimum tax (TMT) to figure your credit. For a small corporation exempt from the AMT under section 55(e), enter zero. Otherwise, complete and attach the applicable AMT form or schedule. Enter on line 12 the TMT from the line shown below.

- Individuals: Form 6251, line 33.
- Corporations: Form 4626, line 12.
- Estates and trusts: Form 1041, Schedule I, line 54.

## Line 15

If you cannot use all of the credit because of the tax liability limit (line 14 is smaller than line 4), carry the unused credit back 1 year then forward up to 20 years. See the instructions for Form 3800 for details.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

**Recordkeeping** . . . . . 5 hr., 58 min.

**Learning about the law or the form** . . . . . 1 hr., 12 min.

**Preparing and sending the form to the IRS** . . . . . 1 hr., 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.